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National Intelligence Daily for Tuesday, 12 December 1989

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Summary:

The CIA’s National Intelligence Daily for Tuesday, 12 December 1989 describes the latest developments in USSR, Bulgaria, East Germany, Western Europe and Eastern Europe.

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Director of Central Intelligence

NATIONAL INTELLIGENCE DAILY

Tuesday, 12 December 1989

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CPAS NID 89-287JX
12 December 1989

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USSR: Agenda for the Congress

— Opening and closing remarks by President Gorbachev.

— Premier Ryzhkov's report on the economy and the 13th Five-Year Plan.

— Proposed changes to the constitution and election laws.

— Establishment of a permanent constitutional review commission and election of its members.

— Internal Affairs Minister Bakatin's report on crime.

— Commission reports on the Tbilisi massacre last April, the Molotov-von Ribbentrop Pact of August 1939, and the investigation of People's Deputies Gdlyan and Ivanov on corruption charges.

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USSR: **Congress of People's Deputies Opens Today**

The second Congress of People's Deputies, opening a 10-day session today, will focus on the economy and on a package of measures to advance political and economic reforms; debate on price reform, the expansion of property rights, and the constitutionally protected status of the Communist Party will be heated.

The deputies will consider economic stabilization measures and the government's controversial economic blueprint to move toward a more market-oriented system in the next six years. In addition, Premier Ryzhkov will outline the 1991-95 economic plan. On the political front, the Congress will consider the Supreme Soviet's recommendations for electoral reform, including abolishing guaranteed seats in the Congress for the Communist Party. It will also examine bills that would strengthen the oversight powers of the new legislature and replace the interim constitutional review commission with a permanent one.

Radical deputies, in addition to leading the drive to abolish guaranteed seats, will try to force a debate on repeal of Article 6 of the Soviet Constitution, which guarantees the party's leading role. They claim to have the support they need to put the issue on the agenda but may back down in light of President Gorbachev's promise that it will be dealt with later.

Comment: The Soviet leadership is trying to marshal support for its economic reform blueprint and wants the Congress to endorse it. Because the disarray in consumer markets is Moscow's most pressing problem, the leadership will put a high priority on its economic stabilization program, including efforts to control inflation and reduce the budget deficit.

. Debate will be intense; while some deputies blame the economic crisis on reform, others believe the crisis can be solved only through more radical measures.

Debate on the political issues is likely to be more polarized at this session than at the first. At the pre-Congress plenum Saturday, Gorbachev asked Central Committee members to act responsibly and to lobby their deputies not to repeal Article 6. If radical deputies succeed in putting that issue on the agenda, Gorbachev probably will try to broker a compromise that protects the party's legal right to power or formally refers the issue to a new constitutional commission Gorbachev will chair.

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USSR: **Tensions Rise on Armenian-Azerbaijani Border**

New tensions on the border between Armenia and Azerbaijan raise the risk of more organized conflict between the two populations.

According to Western press reports, several hundred soldiers slated to serve in Poland deserted last week because they do not want to leave their republic while they see a growing danger of war with Armenia. Also last week, Azeris took two MVD officials in Nagorno-Karabakh hostage, wounding one before releasing both.

Comment: Soviet officials and press reports blame the nationalist front movements in both republics for spearheading the latest surge in violence. Until now, most of the violence has been limited to sporadic action by small groups, but the action of the 20,000 Armenians raised the strife to a new level. Both fronts are trying to organize republicwide defense groups that some sources describe as quasi-official armies. Party officials in both republics, fearful of sacrificing their limited popularity, are moving cautiously to temper only the most extreme demands from nationalists. Moscow would prefer to continue its current policy of detachment and allow local officials to resolve the situation. If major fighting between Armenian and Azeri irregulars breaks out, Moscow will consider using regular military units to restore order.

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Highlights of Gorbachev's Remarks

Eastern Europe: The USSR is building its relations with East European countries . . . on a single position of respect for sovereignty, noninterference, and recognition of freedom of choice. We proceed from the fact that any nation has the right to decide its fate itself.

European Integration: A more developed infrastructure of links, capable of growing into a kind of common European mechanism of cooperation, is being set up. In fact the point at issue is a marked advance on the road of building a common European home. . . . The holding of the Helsinki II meeting would give powerful impetus to the construction of the common European home.

The Malta Meeting and US-Soviet Relations: We wanted the meeting with the US President to give tangible useful results. From the first moments George Bush showed that he also sought a similar outcome . . . on the whole, there is an impression that Washington had decided to stop economic war against us. . . . I repeat, great and tangible changes are taking place. A transition from confrontation to greater mutual understanding has already taken place. We are now moving to a higher degree of mutual understanding and even cooperation.

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USSR: **Gorbachev Focuses on Foreign Policy**

President Gorbachev's unusually detailed treatment of foreign policy in his speech to the Central Committee Saturday showed particular sensitivity on German developments, reaffirmed the role of expanded Western ties in advancing perestroyka, ***and highlighted foreign policy achievements.***

Asserting that developments in Eastern Europe mark the "renewal of Socialism," Gorbachev acknowledged they do not proceed easily. He referred to the loss of power by several Communist parties and warned that "where there is a delay in dealing with overripe problems, excesses are inevitable."

Gorbachev affirmed the inviolability of postwar borders and reiterated Soviet opposition to Western "interference" in Eastern Europe, particularly East Germany. He warned that a departure from the existence of two sovereign German states would threaten the stability of Europe but acknowledged that relations between the two Germanys could change.

The Soviet President expressed special satisfaction at his meeting last Wednesday with French President Mitterrand, who he said has views on the German issue quite close to his own. He also claimed that at Malta he and President Bush had achieved a reassuring degree of understanding on European issues, including German problems. Gorbachev catalogued the economic agreements he and President Bush had discussed, as well as the arms control accords to be signed next year, and characterized the Malta talks as the beginning of a new stage in Soviet-US relations. He noted that West European countries are showing a greater readiness for economic cooperation with the USSR.

Comment: Gorbachev obviously was seeking to preempt criticism from orthodox party bureaucrats and ideologues by putting his own interpretation on events in Eastern Europe and by warning his opponents that they could suffer the same fate if they continue to obstruct reforms. His comments, however, probably did not change the minds of party and military officials who worry that events in Eastern Europe, especially in East Germany, threaten Soviet security. Press accounts indicate at least one party official attacked Gorbachev at the plenum for kowtowing to the West. Still, the majority of delegates reportedly endorsed his policies and approved personnel changes that strengthen his position. Moreover, most of the population supports Gorbachev's foreign policy.

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BULGARIA: **Looking to Free Elections in Six Months**

Bulgarian party leaders, struggling to stay ahead of popular demands for reform, announced yesterday that free elections will be held in six months.

At the party plenum that opened yesterday, the regime called for an extraordinary party congress in March, free elections for the National Assembly by May, and a new constitution to follow. General Secretary Mladenov also hinted the constitutional article guaranteeing the party's leading role will be rescinded soon. He had said only last week that free elections probably would not take place for several years.

The regime also is easing its handling of dissidents. It legalized the leading unofficial environmental group yesterday, the first such approval of a dissident group. The Assembly is to pass a law on Thursday recognizing all dissident groups, according to a government spokesman.

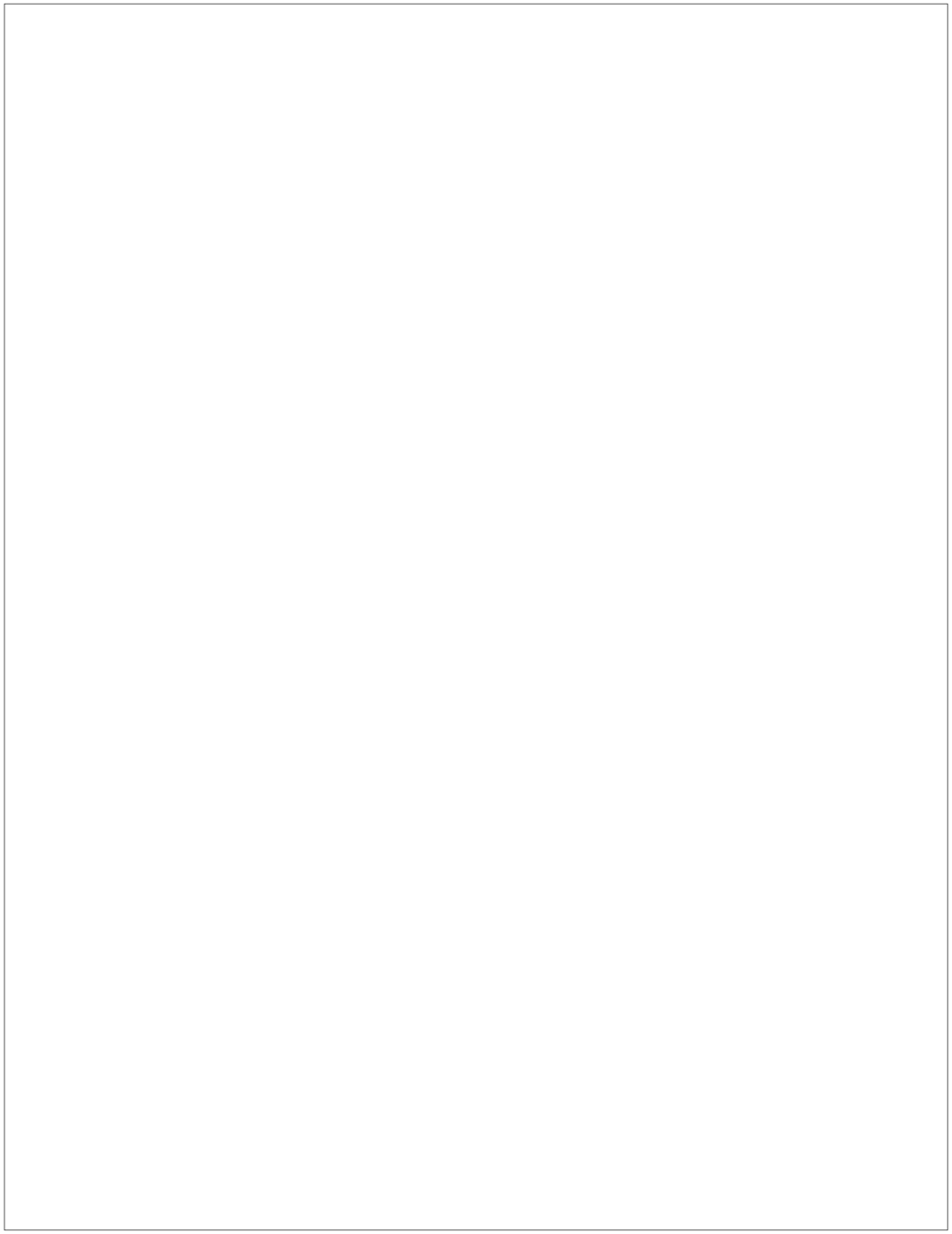
Comment: The party leaders are moving boldly in an effort to salvage their popular standing and give themselves time to implement their economic reform program, but they are likely to cost the Communist Party its majority in the Assembly. Blatant restrictions might create a backlash from an emboldened public, and the resurging Agrarian Party probably will present stiff competition for the first time in more than 40 years. Moreover, the regime may not be able to limit the participation of newly recognized opposition groups.

Mladenov's apparently sudden reversal on the issue of free elections suggests he is not in full control of the party. More reform-minded members of the Politburo—like economic czar Lukanov, who promised last week that elections are forthcoming, and newly reinstated Politburo and Secretariat member Lilov—may be forcing a faster implementation of political reform. The speed with which the reformers are moving raises the possibility they may yet force Mladenov's ouster, opening the way for the type of revolutionary change occurring elsewhere in Eastern Europe.

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EAST GERMANY: Reunification Issue Dividing Opposition

The issue of German reunification is starting to split the opposition movement in East Germany. At the weekly demonstration in Leipzig last night, some of the 150,000 protesters chanted for reunification while others denounced them as Nazis. Pro- and antireunification groups have jeered each other in East Berlin, Dresden, and elsewhere. East German media have publicized new Communist party chairman Gysi's telephoned statement to President Gorbachev Sunday that reunification would dangerously destabilize Europe.

Comment: Reunification could become an explosive issue as political groups prepare for the election on 6 May. The Modrow government and the Communists may try to win support by exploiting the antireunification sentiment among some leftists, intellectuals, bureaucrats, and clergy. Strife between pro- and antireunification protesters would test the new government's commitment to public debate of controversial issues. Meanwhile, reunification advocates gather steam; even the Communists have called publicly for confederal ties to West Germany.

WESTERN EUROPE: Reassessing How To Aid Eastern Europe

Foreign Ministers from the Group of 24 states—which include the West European countries, the US, and Japan—meet in Brussels tomorrow to discuss how they can move beyond ad hoc aid programs being monitored by the EC Commission to meet growing East European needs. Several governments have expressed concern that the aid effort lacks a coherent strategy and is insufficiently coordinated with the IMF and OECD. Tokyo reportedly will propose the OECD study East European social and economic needs to guide future Western assistance. Representatives from at least five countries, including West Germany, support a proposal for a new task force to plan and coordinate the assistance effort.

Comment: The EC Commission's leadership role is not likely to be challenged, despite dissatisfaction with the current aid effort. G-24 governments instead will seek a way to use OECD and IMF expertise more effectively in coordinating future assistance programs. The EC Commission probably will canvass member countries on bringing other East European reformers besides Poland and Hungary, particularly Czechoslovakia and East Germany, under the G-24 umbrella. Scattered pledges of additional assistance for Warsaw and Budapest are likely, but the currency stabilization fund for Poland probably will not be fully subscribed because of administrative delays in some donor states.

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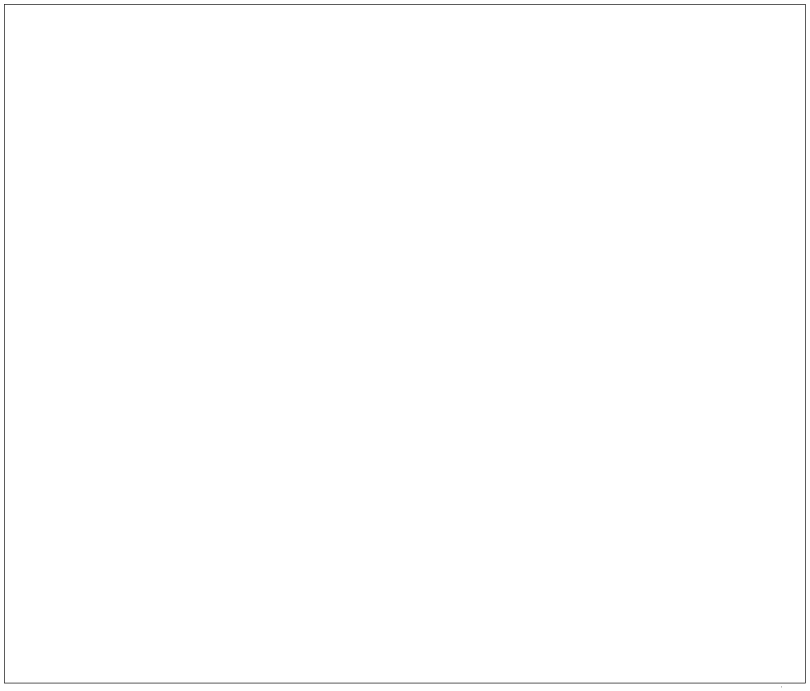
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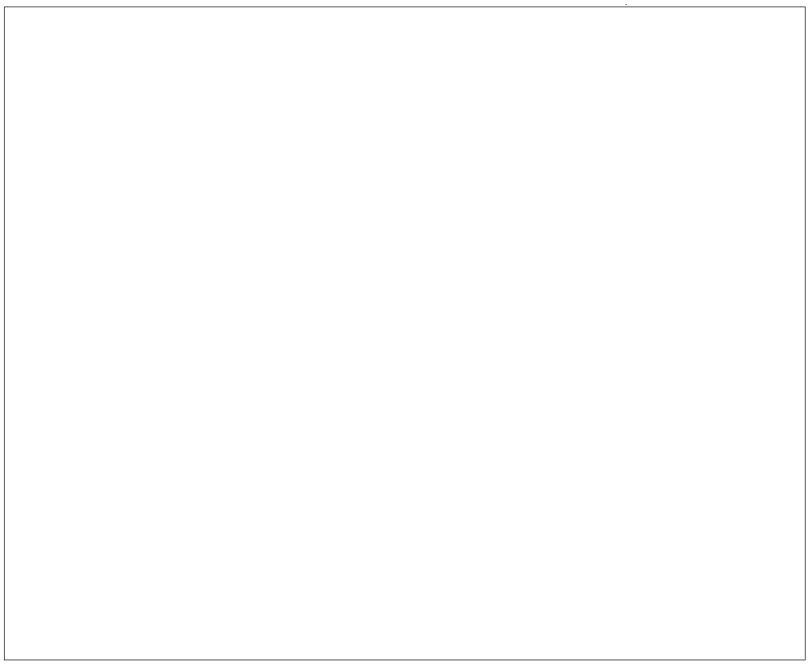
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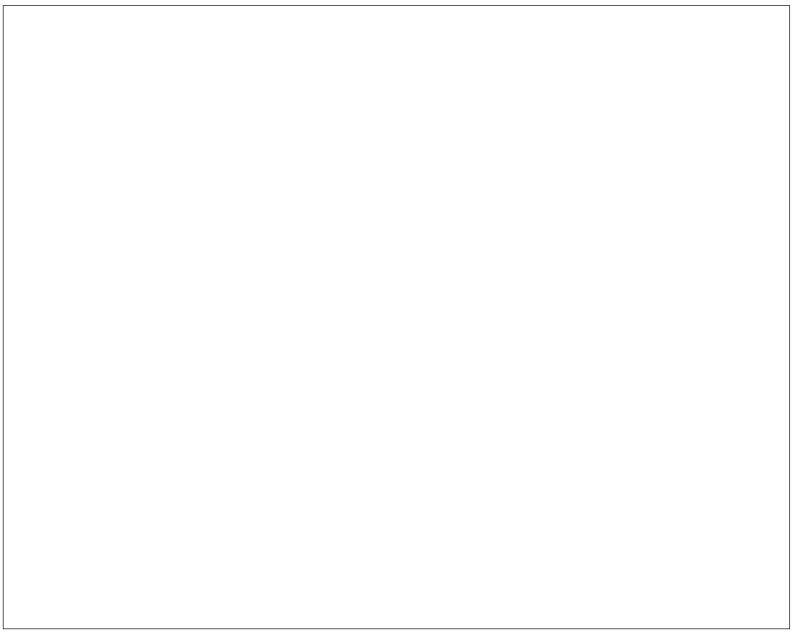
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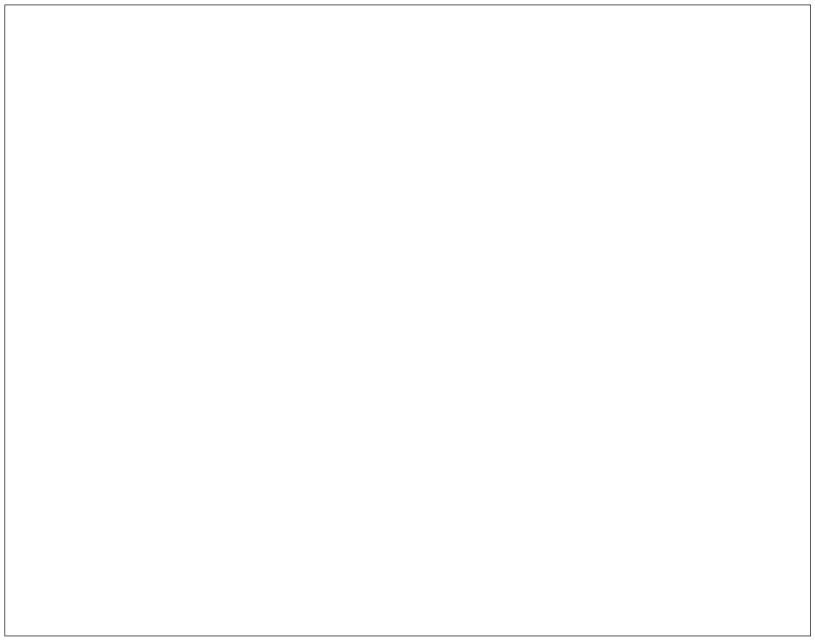
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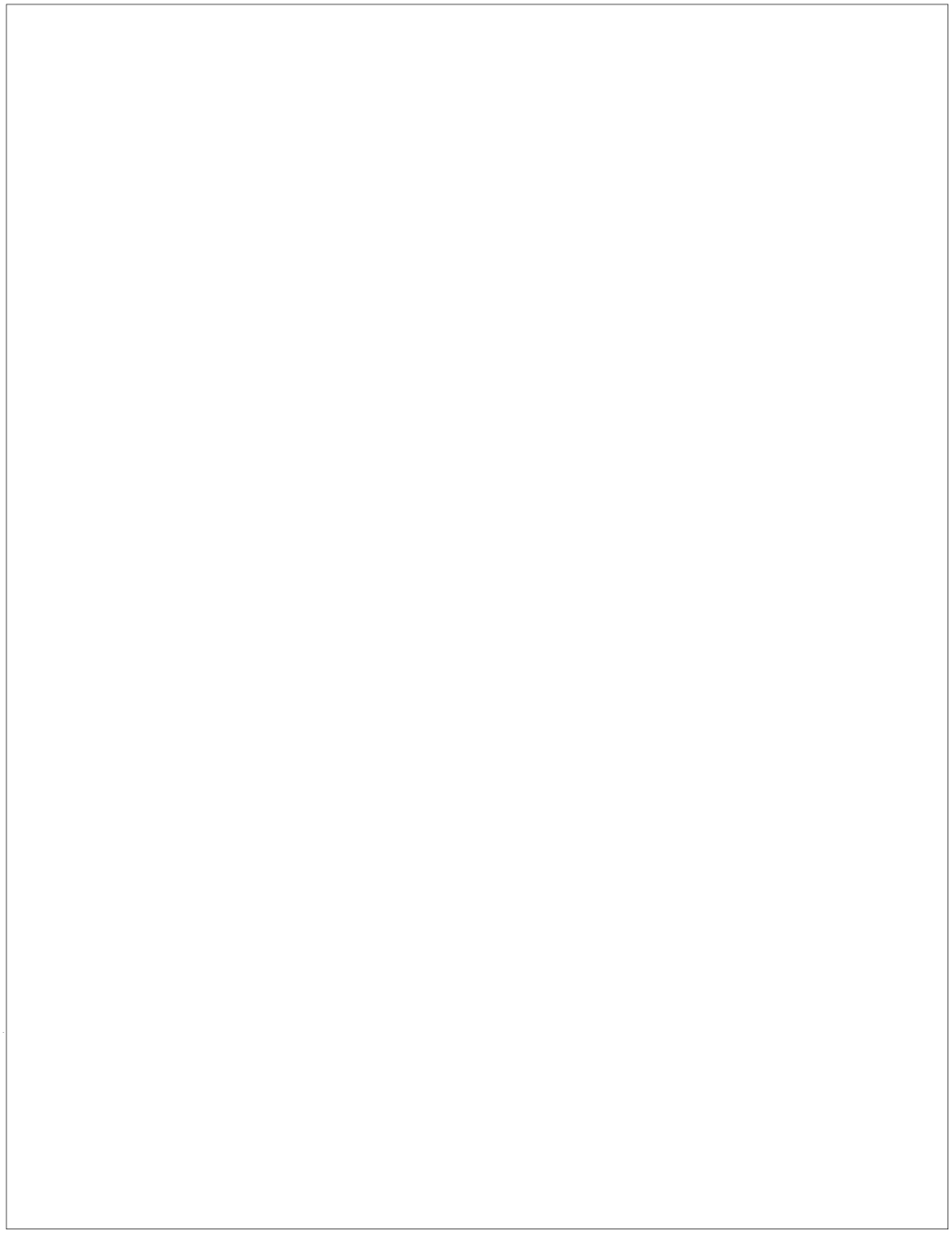
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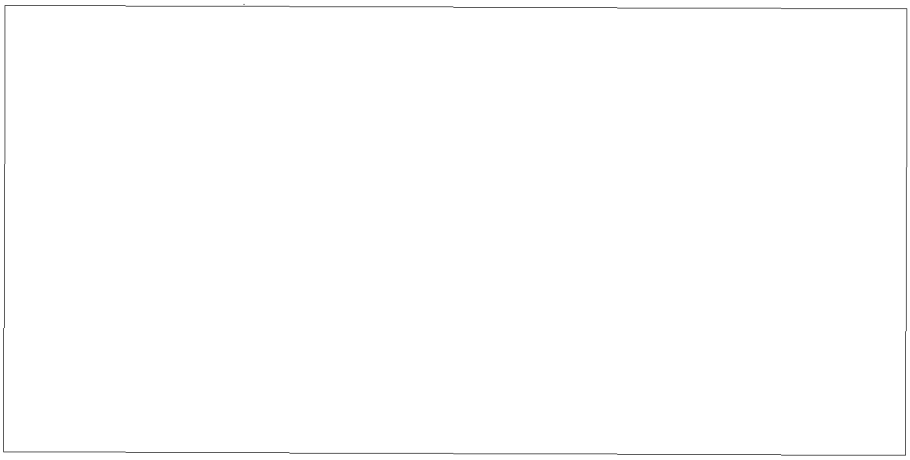


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Special Analysis

EASTERN EUROPE:

Long Road Ahead to Economic Well-Being

Once the eupnoria of political change begins to wane, the daunting task of recovering from four decades of economic mismanagement will face the new reform governments in Eastern Europe. Not only are expectations of rapid improvement unrealistic, but people generally do not appreciate that a wrenching drop in living standards will accompany economic restructuring. A timely, sustained program of Western financial and technical aid will be a key factor in the ability of the new leaderships to sell reform.

In recent months, Poland and Hungary have passed a series of unprecedented constitutional amendments and other legislation in support of economic reform. Many ideological barriers have been overcome, and progress, probably irreversible, has been made toward reducing administrative controls on the economy, opening it up to market forces, and rewarding individual initiative.

Implementation, however, particularly of reforms dealing with the politically sensitive issues of bankruptcy, unemployment, and privatization, has not kept pace with legislation. The hybrid governments in Warsaw and Budapest, inexperienced with market mechanisms and increasingly answerable to the electorate, have been slow to translate economic priorities into tough reform initiatives.

Popular Consensus for Reform Uncertain

The public's tolerance for austerity, which is key to further reforms, is largely untested. Most of the legislation enacted thus far—broadening foreign and private investment rights, liberalizing trade and foreign exchange activity, creating stock and bond markets—does not add to the burden on a population already struggling to make ends meet. Moreover, a steady stream of wage increases and an accompanying upswing in real wages have helped cushion the potentially more negative effects of recent price hikes.

Despite the bandwagon for economic change, no electorate has yet endorsed an austerity program. To many workers, economic reform simply means greater access to material goods and a higher standard of living without attendant hardships: unemployment, relocation, and higher prices. In Poland, for example, only 15 to 20 percent of the youngest voters—the most frustrated economically and the most active in protesting against austerity measures—participated in the election that eventually brought Solidarity to power.

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A crunch may come when reform leaders tackle the issue of consumer subsidies and spiraling wages. In Poland, where food and fuel costs have risen rapidly since August, it may happen as early as this month when the wage indexation law protecting worker income expires.

Unfavorable Environment

A strong popular consensus behind reform would not by itself move the regions' highly distorted economies closer to a market orientation. In Poland, for example, much of the local Communist bureaucracy opposed to rapid change remains entrenched. The deteriorating economic situation in most of the region—characterized by inflationary pressure, declining industrial output, growing budget deficits, and deteriorating balance-of-payments problems—will add to the adjustments people must make.

Currency devaluations; more market-determined prices, wages, and interest and exchange rates; and a reduction in government expenditures—all prerequisites for IMF standby programs and desperately needed Western aid—will mean higher unemployment, a surge in inflation, falling output and consumption, and widening income disparities, at least in the short run.

Expectations Dangerously High

With expectations so high, the risk of failure, perceived or real, is great. Warsaw and Budapest have made Western economic support the centerpiece of reform efforts and seem ready to accept large doses of nasty medicine in exchange for sizable amounts of Western financial and technical assistance. Failure to secure such help or to meet ambitious targets could undercut reform efforts to win public support and to hold the confidence of Western creditors.

Because the benefits of economic restructuring are long term and the short-term costs are high, progress toward market reform will be uneven for both the new coalition governments and the West. If aggressive implementation coincides with consumer shortages and a prolonged decline in real incomes, workers may take to the streets. In these circumstances, the US and other Western donors would be likely to encounter pressure for additional aid and a high degree of public criticism if none were made available.

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